



Agenda Date: 4/12/07  
Agenda Item: 2A

**STATE OF NEW JERSEY**  
**Board of Public Utilities**  
**Two Gateway Center**  
**Newark, NJ 07102**  
**[www.bpu.state.nj.us](http://www.bpu.state.nj.us)**

IN THE MATTER OF THE PETITION OF )  
JERSEY CENTRAL POWER AND LIGHT )  
FOR AUTHORITY TO: (A) ISSUE AND SELL )  
UP TO \$550,000,000 AGGREGATE )  
PRINCIPAL AMOUNT OF SENIOR NOTES IN )  
ONE OR MORE SERIES AND TO MAKE, )  
EXECUTE, AND DELIVER ONE OR MORE )  
SUPPLEMENTAL INDENTURES IN )  
CONNECTION THEREWITH; AND (B) ISSUE )  
A LIKE AGGREGATE PRINCIPAL AMOUNT )  
OF FIRST MORTGAGE BONDS TO SECURE )  
THE SENIOR NOTES UNTIL THE RELEASE )  
DATE AND TO MAKE, EXECUTE AND )  
DELIVER ONE OR MORE SUPPLEMENTAL )  
INDENTURES IN CONNECTION )  
THEREWITH. )

ENERGY

ORDER

DOCKET NO. EF07010015

(SERVICE LIST ATTACHED)

BY THE BOARD:

On January 12, 2007, Jersey Central Power & Light Company ("Petitioner" or "Company"), a public utility of the State of New Jersey, by petition filed with the New Jersey Board of Public Utilities ("Board"), pursuant to N.J.S.A. 48:3-9, seeks authority to: (a) to issue and sell, in one or more series from time to time through December 31, 2007, notes (the "New Senior Notes") in an aggregate principal amount not to exceed \$550,000,000 and, in connection therewith, to make, execute and deliver to the Bank of New York, as successor trustee ("Senior Note Trustee"), one or more supplemental indentures to the indenture ("Senior Note Indenture") between the Company and the Senior Note Trustee, dated as of July 1, 1999, as amended from time to time (each, a "Senior Note Supplement") for the purpose, among other things, of describing the terms of the New Senior Notes; and (b) to issue a like aggregate principal amount of first mortgage bonds ("New First Mortgage Bonds") under the Petitioner's Indenture, dated as of March 1, 1946, with The Bank of New York, as successor trustee, as heretofore amended and supplemented ("Mortgage"), to secure the New Senior Notes until the Release Date (as defined below) and to make, execute and deliver one or more supplemental indentures in connection therewith.

By Orders of the Board dated March 18, 1999, October 26, 2000, April 25, 2001 and November 22, 2002, in Docket No. EF98121419 (collectively, the "Initial Senior Note Orders"), the Petitioner was granted authority from time to time through December 31, 2004 without further Order of the Board to, among other things, (i) issue and sell up to \$300,000,000 aggregate principal amount of senior notes ("Initial Senior Notes") under the Senior Note Indenture, and (ii) issue and sell up to \$300,000,000 aggregate principal amount of first mortgage bonds ("Initial First Mortgage Bonds") under the Mortgage, to secure such senior notes until the Release Date (as defined below). Pursuant to the Initial Senior Note Orders, the Petitioner has issued and sold \$300,000,000 aggregate principal amount of Initial Senior Notes under the Senior Note Indenture, secured by \$300,000,000 aggregate principal amount of Initial First Mortgage Bonds.

Furthermore, by Order of the Board dated April 5, 2004, in Docket No. EF03100838 ("2004 Order"), the Company was granted authority from time to time through December 31, 2005 without further order of the Board to, among other things, (i) issue and sell up to an additional \$300,000,000 aggregate principal amount of senior notes (the "2004 Senior Notes") under the Senior Note Indenture and (ii) issue and sell up to an additional \$300,000,000 aggregate principal amount of first mortgage bonds ("2004 First Mortgage Bonds") under the Mortgage to secure the 2004 Senior Notes until the Release Date (as defined below). Pursuant to the 2004 Order, the Petitioner has issued and sold \$300,000,000 aggregate principal amount of 2004 Senior Notes under the Senior Note Indenture, secured by \$300,000,000 aggregate principal amount of 2004 First Mortgage Bonds.

Furthermore, by Order of the Board dated April 27, 2006, in Docket No. EF06020085 ("2006 Order" and, together with the Initial Senior Note Orders and the 2004 Order, (the "Prior Orders"), the company was granted authority from time to time through December 31, 2006 without further order of the Board to, among other things, (i) issue and sell up to an additional \$200,000,000 aggregate principal amount of senior notes ("2006 Senior Notes" and, together with the Initial Senior Notes and the 2004 Senior Notes, the "Prior Senior Notes") under the Senior Note Indenture and (ii) issue and sell up to an additional \$200,000,000 aggregate principal amount of first mortgage bonds ("2006 First Mortgage Bonds" and, together with the Initial First Mortgage and the 2004 First Mortgage Bond, the "Prior First Mortgage") under the Mortgage to secure the 2006 Senior Notes until the Release Date (as defined below). Pursuant to the 2006 Order, the Petitioner has issued and sold \$200,000,000 aggregate principal amount of 2006 Senior Notes under the Senior Note Indenture, secured by \$200,000,000 aggregate principal amount of 2006 First Mortgage Bonds.

The New Senior Notes will be issued and sold under the Senior Note Indenture and will initially be secured by "mirror" New First Mortgage Bonds issued under the Mortgage. Each series of New First Mortgage Bonds issued to the Senior Note Trustee concurrently with the issuance of a series of the New Senior Notes will have the same interest rate or rates, maturity date or dates, redemption provisions, and other terms of such series of the New Senior Notes and will rank equally with all of the Petitioner's other first mortgage bonds issued under the Mortgage which heretofore have been issued and are outstanding under the Mortgage. The Senior Note Indenture provides that on the earlier of (i) the date that all of the Petitioner's first mortgage bonds issued under the Mortgage that were issued prior to the issuance of the Prior Senior Notes have been retired through payment, redemption, purchase or otherwise and (ii) the date upon which the Senior Note Trustee holds not less than 80% of all of the Petitioner's outstanding first mortgage bonds issued under the Mortgage (the earlier of the two dates being

the "Release Date"), the New First Mortgage Bonds issued to the Senior Note Trustee will be canceled and shall cease to secure the New Senior Notes, and the New Senior Notes will become unsecured general obligations of the Petitioner. Pursuant to the terms of the Senior Note Indenture, no additional first mortgage bonds may be issued under the Mortgage other than as collateral security for the New Senior Notes or any other series of senior notes issued under the Senior Note Indenture. It is anticipated that the Release Date will occur following the sale of the New Senior Notes and the use of the proceeds thereof. Therefore, no additional first mortgage bonds will thereafter be issued under the Mortgage.

In connection with its Petitions in Docket Nos. EF98121419, EF03100838 and EF06020085, the Petitioner stated that its intention in offering for sale, issuing and selling senior notes secured by the mirror or "fall away" first mortgage bonds, in lieu of issuing traditional first mortgage bonds, was to ultimately replace its then-existing mortgage bond financing program with an unsecured note financing program. The Petitioner believed that accomplishing this initially through the offer for sale, issuance and sale of the senior notes secured by the mirror first mortgage bonds enabled the Prior Senior Notes to obtain a rating comparable to the Petitioner's first mortgage bonds (which would not have been possible if the Prior Senior Notes had been issued on an unsecured basis while a significant amount of the Petitioner's first mortgage bonds issued under the Mortgage were still outstanding). The Petitioner asserts that the same reasoning applies to the proposed issuance and sale of the New Senior Notes. Moreover, as noted, the Senior Note Indenture authorized by the Prior Orders precludes the issuance of additional first mortgage bonds other than as collateral security for senior notes, such as the New Senior Notes. The Petitioner asserts that when substantially all of the Petitioner's currently outstanding first mortgage bonds are no longer outstanding and the Prior and New Senior Notes are not then subordinate to a material amount of other indebtedness of the Petitioner, additional senior notes in future financing programs should be able to be sold at interest rates essentially equivalent to those which could have been obtainable for secured debt.

The Petitioner states that the New Senior Notes will be sold in substantially the same manner as its secured medium term notes ("MTNs") except with respect to the underwriting arrangements described below. As such, the New Senior Notes will be sold primarily based on their credit ratings, such that these and similar securities should be treated by investors as relatively fungible as between issuers. Consequently, the Petitioner asserts that securities such as the New Senior Notes are typically sold with interest rates negotiated at the time of sale based on spreads over comparable maturities of U.S. Treasury securities. Based upon past experience with its MTN programs for many years and the prior issuance and sale of the Prior Senior Notes, the Petitioner expects that the New Senior Note program will provide for competition not only among the institutional investors seeking to purchase the New Senior Notes within a given maturity range and credit rating, but also among the underwriters seeking to place the issue on behalf of the Petitioner. The Petitioner believes that, should it determine based upon existing market conditions and other relevant factors, to issue and sell the New Senior Notes, it should be authorized to do so on a negotiated basis in a manner similar to that authorized in the past by the Board in Docket Nos. EF88121337, EF90111334J, EF91121811JA, EF92121082J, EF98121419, EF03100838 and EF06020085. The New Senior Notes will mature no less than one year and no more than thirty-five years from the date of issuance.

The Petitioner expects to enter into underwriting agreements with one or more established underwriters from time to time and intends to offer the New Senior Notes for sale to purchasers

through said underwriters or directly to such underwriters as principals. The underwriters will utilize the competitive forces of the marketplace to sell the New Senior Notes at rates and on terms favorable to the Petitioner. In essence, the underwriters will solicit indications of interest for the purchase of the New Senior Notes so as to create the greatest demand practicable for the securities. To take advantage of the competition, new issues are typically announced with no price guidelines while the underwriter leads build an over-subscribed order book. This demand will generate competition among the potential purchasers competing to purchase the New Senior Notes so as to achieve the most aggressive pricing levels for the Petitioner. The Petitioner has also requested authority to utilize competitive bidding and direct placement as set forth in its Petition. The flexibility of use of these methods of sale will allow the Petitioner to get the best possible rates and terms and satisfies the competitive bidding requirements of the Board. The price of the securities will be based on a competitive process.

On the basis of current and historical market conditions, the Petitioner anticipates that the maximum coupon spread over U.S. Treasury securities for the New Senior Notes will be as follows:

<u>Range of Maturities</u>	<u>Maximum Coupon Spread Over U.S. Treasury Securities (Basis Points)</u>
1 Yr. to less than 18 Mos.	110
18 Mos. to less than 2 Yrs.	130
2 Yrs. to less than 3 Yrs.	140
3 Yrs. to less than 4 Yrs.	150
4 Yrs. to less than 5 Yrs.	160
5 Yrs. to less than 7 Yrs.	170
7 Yrs. to less than 10 Yrs.	180
10 Yrs. to less than 15 Yrs.	190
15 Yrs. to less than 20 Yrs.	200
20 Yrs. to 35 Yrs.	220

The coupon spreads set forth above are based upon the difference between market yield of corporate debt securities having ratings comparable to the Petitioner's first mortgage bonds and U.S. Treasury securities with like maturities. These maximum coupon spreads are designed to allow for differences in redemption provisions as well as for ordinary market volatility. If market conditions change materially, the Petitioner will deliver an updated yield spread schedule to the Board.

The purpose of the issuance of the New Senior Notes is to provide a portion of the permanent financing required by the Petitioner to provide safe, adequate and proper service to the public. The Petitioner expects to apply the net proceeds of the sale of the New Senior Notes to the redemption of outstanding senior securities pursuant to the mandatory redemption provisions thereof, to the repayment of common equity, to the repayment of outstanding short-term debt, for construction purposes, and for other general corporate purposes, including to reimburse the Petitioner's treasury for funds previously expended therefrom for the above purposes. The Petitioner may also use such net proceeds to repurchase first mortgage bonds in the open market.

The optional redemption or repurchase of first mortgage bonds may be effected at a so-called premium, i.e., at price above the par or stated value thereof, subject to the following conditions. The Petitioner represents that it will not so redeem or repurchase such outstanding securities unless the estimated present value savings derived from the difference between interest or dividend payments on a new issue of comparable securities and those securities and those securities refunded is on an after-tax basis greater than the estimated present value of all redemption, tendering and issuing costs, assuming an appropriate discount rate.

The Division of Rate Counsel ("Rate Counsel") submitted comments by letter dated March 27, 2007, in which Rate Counsel indicated that it has reviewed the Petition and does not oppose its approval.

The Board, having considered the record and exhibits submitted in this proceeding, is satisfied that the action proposed to be taken by the Petitioner should result in savings which will be passed on to customers in the form of lower capital costs. Moreover, the proposed financing is consistent with the Board's policy that utilities engage in competitive sales of debt financing. Accordingly, the Board finds that the proposed transaction is in accordance with law, is in the public interest, and approving the purposes thereof HEREBY ORDERS that the Petitioner be and is HEREBY AUTHORIZED, from time to time through December 31, 2007:

- 1 Without further Order of the Board, to issue and sell, in one or more series through December 31, 2007, New Senior Notes in an aggregate principal amount not to exceed \$550,000,000 and, in connection therewith, to make, execute and deliver to the Senior Note Trustee one or more supplemental indentures to the Senior Note Indenture for the purpose, among other things, of providing for the issuance of such New Senior Notes in series and describing the terms of the New Senior Notes; and to issue a like aggregate principal amount of New First Mortgage Bonds to secure the New Senior Notes until the Release Date and to make, execute and deliver one or more supplemental indentures to the Mortgage in connection therewith; and
2. Without further order of the Board, to repurchase first mortgage bonds at a premium, subject to the conditions described above.

This Order is issued subject to the following provisions:

- 1 With respect to each issue of New Senior Notes, the Petitioner shall provide the following material for information purposes as soon as it is available and in no event later than 24 hours prior to the anticipated time for the pricing (which materials may be provided by facsimile transmission or by hand delivery to the Office of the Chief Economist and confirmed by mail to the Board and are deemed provided upon dispatch): (I) a statement with respect to the indicative pricing for the New Senior Notes and the terms thereof which shall specify (i) the anticipated date and time for the pricing of the New Senior Notes, (ii) the aggregate principal amount of the New Senior Notes, (iii) the terms and conditions upon which the New Senior Notes may be redeemed, whether at the option of the Petitioner, pursuant to any mandatory provision, or otherwise, and (iv) such other provisions as may be established by the Petitioner with respect to the terms and conditions of the New Senior Notes and the pricing therefore; and (II) an assessment of the then current financial markets applicable to the New Senior Notes

which shall include (i) data with respect to recent sales of comparable securities and first mortgage bonds of other utilities, (ii) data with respect to current yields on certain outstanding first mortgage bonds of the Petitioner, (iii) anticipated compensation to and the names of the underwriters for the New Senior Notes, (iv) the anticipated range of the yield of the New Senior Notes based upon current market conditions, and (v) such other information as the Petitioner shall deem relevant to assess the expected sale of the New Senior Notes and the reasonableness of the annual cost of money rate thereof.

2. If (I) the interest rate on any series of New Senior Notes, in relation to U.S. Treasury securities, does not exceed the range set forth in the table above, and (II) the compensation to the underwriters with respect to any series does not exceed 1.0% of the aggregate principal amount of the New Senior Notes issued and sold, the Petitioner may effect New Senior Notes transactions without further Order of the Board. If either the interest rate or the compensation to the underwriters shall exceed such amounts, the proposed issuance and sale of such New Senior Notes shall not be consummated until a further Order of the Board authorizing such New Senior Notes transaction has been entered.
3. The Petitioner shall, as promptly as is practical after acceptance of an offer for, and the pricing of, any New Senior Notes, notify the Office of the Chief Economist in writing, by facsimile transmission or by hand delivery and notify the Board by mail, of the action to be taken and include a statement setting forth the compensation to and names of all the underwriters, and, as applicable, the aggregate principal amount of New Senior Notes, the interest rate of the New Senior Notes and any other material provision with respect to the terms and conditions of the New Senior Notes.
4. The Petitioner shall furnish the Board with copies of executed documents filed with other regulatory agencies relating to the New Senior Notes.
5. The New Senior Notes authorized herein shall not be redeemed at a premium prior to maturity without further Board approval, unless the estimated present value savings derived from the difference between interest or dividend payments on a new issue of comparable securities and those securities refunded is on an after-tax basis greater than the estimated present value of all redemption, tendering and issuing costs, assuming an appropriate discount rate.
6. This Order shall not constitute pre-approval of any costs or authorization for rate recovery. All capital costs should be subject to review in the Company's next base rate proceeding.
7. This Order shall not be construed as a certification that the securities authorized to be offered for sale will be represented by tangible or intangible assets of commensurate value or investment costs.
8. The Petitioner shall furnish the Board with copies of all executed supplements to the Senior Note Indenture.
9. This Order shall not affect nor in any way limit the exercise of the authority of this Board

or of this state, in any future petition or any proceedings with respect to rates, franchises, services, financing (including method of sale of securities), accounting, capitalization, depreciation, or in any other matters affecting the Petitioner.


10. This Order shall not be construed as directly or indirectly fixing, for any purpose whatsoever, any value of the tangible or intangible assets now owned or hereafter to be owned by the Petitioner.
11. The Petitioner shall semi annually file reports required in N.J.A.C. 14:1-5.9(b) setting forth the terms and conditions of all the New Senior Notes issued during that period together with a calculation of the cumulative principal amount, and the manner in which the proceeds thereof have been disbursed.
12. The authority granted in this order shall become null and void and of no effect with respect to any portion which is not exercised on or before December 31, 2007.

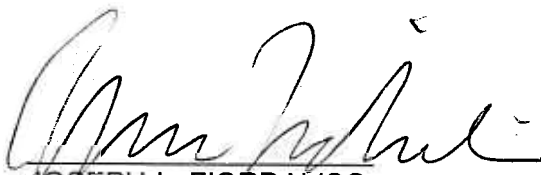
DATED: **4/13/07**

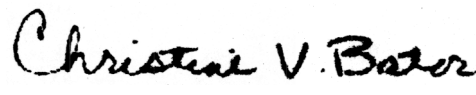
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BY:

  
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FREDERICK F. BUTLER  
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CONNIE O. HUGHES  
COMMISSIONER

  
JOSEPH L. FIORDALISO  
COMMISSIONER

  
CHRISTINE V. BATOR  
COMMISSIONER

ATTEST:

  
KRISTI IZZO  
SECRETARY

## SERVICE LIST

**In the Matter of the Petition of Jersey Central Power and Light for Authority to: (a) Issue and Sell up to \$550,000,000 Aggregate Principal Amount of Senior Notes in One or More Series and to Make, Execute, and Deliver One or More Supplemental Indentures in Connection Therewith; and (b) Issue a like Aggregate Principal Amount of First Mortgage Bonds to Secure the Senior Notes Until the Release Date and to Make, Execute and Deliver One or More Supplemental Indentures in Connection Therewith.**

**Docket No. EF07010015**

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